

## Message Text

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ORIGIN EB-06

INFO OCT-01 AF-04 ARA-06 EUR-08 ISO-00 COME-00 SP-02

AID-05 NSC-05 RSC-01 CIEP-01 TRSE-00 SS-15 STR-01

OMB-01 CEA-01 CIAE-00 FRB-01 INR-05 NSAE-00 XMB-02

OPIC-03 LAB-01 SIL-01 INT-05 L-01 TAR-01 SSO-00

NSCE-00 INRE-00 USIE-00 DODE-00 PA-01 PRS-01 /079 R

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FM SECSTATE WASHDC

TO AMEMBASSY KINSHASA IMMEDIATE

INFO AMEMBASSY PARIS IMMEDIATE

AMEMBASSY LIMA IMMEDIATE

AMEMBASSY LUSAKA IMMEDIATE

AMEMBASSY SANTIAGO IMMEDIATE

AMCONSUL LUBUMBASHI IMMEDIATE

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E.O. 11652: N/A

TAGS: EMIN, ETRD

SUBJECT: CIPEC MEETING IN LIMA

REF: KINSHASA 8791

1. DEPT APPRECIATES EMBASSY EFFORTS TO APPRISE DEPT AND  
INFO ADDRESSEES OF HOME GOVERNMENT INTENTIONS WITH RESPECT  
TO CIPEC AND LIMA MEETING.

2. IN FEW SHORT MONTHS, PRECIPITOUS DECLINES IN AUTO-  
MOBILE AND CONSTRUCTION SECTORS WORLDWIDE HAVE TURNED  
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INTERNATIONAL COPPER MARKET ON ITS HEAD. FROM RECORD

PRICE LEVELS OF APRIL 1974, COMMODITY EXCHANGE PRICES FOR COPPER HAVE DROPPED OVER 50 PERCENT TO 60 US CENTS PER LB IN NEW YORK AND 600 POUNDS PER TON IN LONDON. U.S. PRODUCER PRICES HAVE RECENTLY BEEN SCALED BACK TO 75-80 CENTS PER LB AND FURTHER DECLINES ARE LIKELY.

3. ALTHOUGH SPECULATIVE ACTIVITY IS AGAIN POINTED TO BY FOREIGN PRODUCERS AS REASON FOR PRICE DROP, RAPID FALL IN PRICES ACCURATELY REFLECTS NEW STATISTICAL POSITION FOR COPPER. SINCE APRIL, THERE HAS BEEN FUNDAMENTAL SHIFT FROM SELLER'S MARKET BOLSTERED BY COMMODITY SPECULATION TO A SITUATION WHERE SUPPLY AND DEMAND ARE IN BETTER BALANCE, EXCEPT FOR ABNORMAL EXCESS PRODUCTION OF METAL IN JAPAN

4. THIS SITUATION PUTS PRESSURE ON CIPEC MEMBERS WHO ARE ATTENDING MEETING IN LIMA TO DEVELOP A STRATEGY FOR ENSURING THAT THEIR OWN PRODUCTION PLANS DO NOT NOW CONTRIBUTE TO AN OVERSUPPLY SITUATION AND PRECIPITATE FURTHER SHARP DECLINE IN COPPER PRICES BELOW CURRENT LEVEL. ON THE OTHER HAND, THERE IS NO CONSENSUS AMONG CIPEC MEMBERS THAT CURRENT PRICE PICTURE IS ONE WITH WHICH THEY CANNOT LIVE UNTIL ECONOMIES OF CONSUMING COUNTRIES REBOUND.

5. APPARENT SUCCESS OF CIPEC IN OBTAINING AN AGREEMENT FROM JAPANESE GOVERNMENT TO LIMIT DELIVERIES OF COPPER TO LONDON MARKET HAS STABILIZED LME COPPER PRICES FOR THE MOMENT.

6. ALTHOUGH THE STATISTICAL POSITION OF COPPER MIGHT SUGGEST THAT THE TIME IS NOW RIPE FOR A FLOOR PRICING SCHEME, THE USUAL IMPEDIMENTS WHICH HAVE STEERED CIPEC AWAY FROM SUCH A SCHEME IN THE PAST STILL REMAIN: DIFFERENT COSTS OF PRODUCTION AMONG MEMBER COUNTRIES, POTENTIAL FOR CONSUMER SUBSTITUTION AWAY FROM COPPER (SOMEWHAT MITIGATED BY RECENT PRICE INCREASES FOR ALUMINUM AND OTHER COPPER SUBSTITUTES), EXISTENCE OF COPPER SCRAP ALTERNATIVES, THE TRADITIONAL COMPETITIVENESS OF MEMBER COUNTRIES, AND SUBSTANTIAL PRODUCTION IN NON-MEMBER COUNTRIES. IN ADDITION, MISTRUST AND LIMITED OFFICIAL USE

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ANTIPATHY FOR CURRENT GOVERNMENT IN CHILE (LARGEST CIPEC PRODUCER) ON PART OF SOME CIPEC GOVERNMENTS IS A CONTINUING POLITICAL IMPEDIMENT.

7. CIPEC HAS NOT YET BEEN ABLE TO ASSURE FINANCING REQUIRED TO MAINTAIN BUFFER STOCK FOR COPPER. THE CURRENT IMF FACILITY FOR FINANCING INTERNATIONAL BUFFER STOCKS REQUIRES THAT BOTH CONSUMERS AND PRODUCERS BE

REPRESENTED IN THE ARRANGEMENT. CIPEC DOES NOT MEET THIS REQUIREMENT. IBRD FUNDS WOULD HAVE TO BE LIMITED TO FINANCING STORAGE FACILITIES AND SECTORAL DEVELOPMENT. AS YET, THE ARABS HAVE FAILED TO DISPLAY ANY EAGERNESS TO DIVERT A SIGNIFICANT PORTION OF THEIR OIL EARNINGS TO NON-COMMERCIAL, ECONOMIC ASSISTANCE.

8. IT IS POSSIBLE THAT CIPEC MAY BE ABLE TO SCRAPE TOGETHER LIMITED FINANCING--WITH AN ASSIST FROM THE ARABS--FOR A BUFFER STOCK ARRANGEMENT WHICH WOULD INFREQUENTLY INTERVENE IN THE MARKET (AT SOME PRICE BELOW CURRENT LEVEL) WITH OBJECT OF ELIMINATING DEEP TROUGHS ON LONG-TERM PRICE TREND.

9. FINANCING FOR A MORE AMBITIOUS SCHEME COULD BE PROHIBITIVELY EXPENSIVE. FOR INSTANCE, ONE OF THE FACTORS RESPONSIBLE FOR THE RECENT DROP IN COPPER PRICES WAS THE EXPORT SALE THIS YEAR OF ABOUT 250,000 TONS OF REFINED COPPER BY JAPANESE SMELTERS (JAPAN IS TRADITIONALLY A NET IMPORTER OF REFINED COPPER). AT CURRENT PRICES IT WOULD HAVE COST CIPEC ABOUT \$500 MILLION TO STOCKPILE THIS SURPLUS JAPANESE PRODUCTION OR ITS EQUIVALENT OUT OF THEIR OWN PRODUCTION.

10. CIPEC OR THE ARABS WOULD NOT INVEST THE MAGNITUDE OF FUNDS NECESSARY TO SUPPORT COPPER PRICES ABOVE CURRENT LEVELS, UNLESS THEY COULD BE SURE OF RESELLING STOCKPILED COPPER WITHIN A REASONABLE TIME AFTER MARKET CONDITIONS HAD BECOME MORE FAVORABLE FOR PRODUCERS. A REVIVAL OF COPPER DEMAND IN CONSUMER COUNTRIES WHICH WOULD PERMIT RECOUPING INVESTMENT IN A COPPER STOCK-PILE CANNOT, OF COURSE, BE GUARANTEED FOR THE FORE-SEEABLE FUTURE. CONSEQUENTLY, ALTHOUGH THE GROWING LIMITED OFFICIAL USE

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SURPLUS OF PETRODOLLARS MUST SOON BEGIN TO SPILL OVER INTO LONGER-TERM INVESTMENTS, A COPPER STOCKPILE DESIGNED TO COUNTER-BALANCE FUNDAMENTAL CYCLICAL MOVEMENTS IN COPPER DEMAND STILL REMAINS A MOST UNLIKELY INVESTMENT FOR THE OIL PRODUCERS. MONEY TIED UP IN A COPPER STOCK-PILE WOULD BE EXPOSED TO GREATER RISKS AND REMAIN LESS LIQUID THAN IN ALTERNATIVE INVESTMENTS IN THE DEVELOPED COUNTRIES.

11. ON SUBJECT OF US DOMESTIC PRODUCER PRICING, WE ARE POUCHING COPY OF 1970 HOUTHAKKER REPORT. US PRODUCER PRICING HAS TWO ASPECTS: (1) FIXED PRICES WHICH ARE MORE STABLE THAN COMMODITY-EXCHANGE PRICES AND (2) RATIONING TO FABRICATORS DURING PERIODS OF SHORT-SUPPLY. (IT SHOULD BE UNDERSTOOD THAT EACH PRODUCER SETS OWN PRICE, WHICH

MUST, HOWEVER, BE COMPETITIVE ESPECIALLY UNDER BUYERS' MARKET CONDITIONS.) THE SYSTEM ALLOWS INDEPENDENT FABRICATORS, WHO DO NOT OWN MINE PRODUCTION, TO MAINTAIN THEIR ACCESS TO STEADY, ALBEIT LIMITED, SOURCE OF LOW-COST COPPER FROM US PRODUCERS DURING PERIODS OF COPPER SCARCITY SO THEY CAN OPERATE PROFITABLY WITHOUT RAISING PRICES OF THEIR FABRICATED PRODUCTS TO NON-COMPETITIVE LEVELS (RELATIVE TO PRODUCTS MADE OF SUBSTITUTES). TO MAINTAIN THIS PREFERRED SUPPLY POSITION DURING PERIODS OF SCARCITY, FABRICATORS GENERALLY CONTINUE TO PURCHASE COPPER FROM US PRODUCERS DURING PERIODS OF SURPLUS, EVEN THOUGH CHEAPER COPPER IS AVAILABLE OVERSEAS OR ON THE COMMODITY EXCHANGES. THIS

EXPLAINS IN PART WHY US PRODUCER PRICE REMAINS NEAR 80 CENTS PER LB. WHEN WORLD COPPER PRICES HAVE FALLEN TO 60-65 CENT RANGE.

12. ALTHOUGH THIS SYSTEM HAS PROVIDED A WAY FOR US FABRICATORS TO INSULATE THEMSELVES FROM WIDE FLUCTUATIONS IN RAW MATERIAL PRICES AND TO MAINTAIN STABLE PRICES FOR THEIR COPPER PRODUCTS AND SEMI-MANUFACTURES, US PRODUCER PRICING HAS BEEN CHALLENGED--BOTH INSIDE AND OUTSIDE THE INDUSTRY--AS ANTI-COMPETITIVE. THE HOUTHAKKER REPORT ITSELF PROMPTED A 1972 GRAND JURY INVESTIGATION OF PRICING AND ALLOCATION PRACTICES IN THE COPPER LIMITED OFFICIAL USE

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INDUSTRY. SUBSEQUENTLY THE INDUSTRY BEGAN TO MOVE AWAY FROM REFERENCE PRICES, BASED ON THE "METALS WEEK AVERAGE" (MW AVERAGE IS ITSELF AN ESTIMATED WEIGHTED AVERAGE BASED ON US MINE PRODUCTION AND CURRENT ACTUAL SELLING PRICES OF US PRODUCERS.) THE ANTITRUST INVESTIGATION WAS APPARENTLY SUSPENDED, BUT ON OCT. 14, 1974, METALS WEEK REPORTED THAT THE US JUSTICE DEPT HAD RENEWED ITS INVESTIGATION OF PRICING PRACTICES IN THE COPPER INDUSTRY. INGERSOLL

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## Message Attributes

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